

## Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 BUCHAREST 0236

LIMDIS

FOR EXIMBANK CHAIRMAN DUBRUL FROM AMBASSADOR

E.O. 11652: GDS

TAGS: EFIN, EEW, RO

SUBJECT: EXIMBANK ROLE IN U.S. EXPORTS TO ROMANIA

REF: (A) BUCHAREST 6433; (B) STATE 295207

1. INTRODUCTION: GIVEN THE MAJOR IMPORTANCE I ATTACH TO EXIM'S ROLE IN DEVELOPING US-ROMANIAN TRADE AND THE FACT THAT I WON'T HAVE A CHANCE TO MEET YOU IN WASHINGTON UNTIL MUCH LATER THIS YEAR, I AM USING THIS MEANS TO SHARE WITH YOU SOME OF MY THOUGHTS ABOUT THE CONTEXT IN WHICH THE BANK'S ROLE ASSUMES SUCH IMPORTANCE. I AM HOPEFUL YOU WILL FIND A CHANCE TO VISIT ROMANIA EARLY ON.

2. SUMMARY. DESPITE ITS ATTRACTIVE MARKET FOR WESTERN CAPITAL GOODS, ONLY A SMALL SHARE OF ROMANIA'S IMPORTS COME FROM THE U.S. EXIMBANK FINANCING HAS BEEN CRUCIAL FOR ALL MAJOR SALES OF U.S. CAPITAL GOODS HERE IN RECENT YEARS. SINCE EXIMBANK'S CURRENT TERMS ARE COMPARATIVELY HIGH, THEY MUST REMAIN FLEXIBLE IF THEY ARE TO ENABLE U.S. EXPORTERS TO BENEFIT FROM MAJOR INVESTMENTS UNDER ROMANIA'S 1976-80 PLAN. THE RECENTLY IMPROVED TERMS OF EXIMBANK'S PRELIMINARY COMMITMENT FOR A ROLLER BEARING PLANT TO BE SUPPLIED BY ROLLWAY IS AN CONFIDENTIAL

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EXAMPLE OF JUST THE KIND OF FLEXIBILITY WE NEED. OVERALL USG

EFFORTS TO SEEK CLOSER RELATIONS WITH ROMANIA THAN WITH COUNTRIES TIED MORE TIGHTLY TO MOSCOW DEPEND IN SIGNIFICANT PART UPON ADEQUATE EXIM FINANCING OF US-ROMANIAN TRADE RELATIONS. END SUMMARY.

3. ROMANIA HAS BECOME AN ATTRACTIVE MARKET FOR WESTERN CAPITAL GOODS IN RECENT YEARS BECAUSE OF ITS RAPID RATE OF INDUSTRIAL DEVELOPMENT AND AN INCREASING PREFERENCE FOR WESTERN TECHNOLOGY. GOVERNMENT STATISTICS CLAIM AN ANNUAL RATE OF INVESTMENT IN THE ECONOMY HIGHER THAN ONE-THIRD OF ROMANIA'S NATIONAL INCOME; EVEN IF GOR STATISTICS ARE NOT STRICTLY COMPARABLE TO THOSE OF MARKET ECONOMIES THIS STILL REPRESENTS ONE OF THE WORLD'S HIGHEST RATES OF INVESTMENT. NOW AT THE START OF THE 1976-80 FIVE YEAR PLAN, INVESTMENT IS CONTINUING AT A HIGH RATE, AND COMMERCIAL NEGOTIATIONS FOR MAJOR CONTRACTS WITH WESTERN SUPPLIERS HAVE INTENSIFIED (SEE REFTEL A).

4. EXIMBANK FINANCING HAS BEEN CRUCIAL FOR ALL MAJOR SALES OF U.S. CAPITAL GOODS IN ROMANIA. AFTER RESUMPTION OF EXIMBANK LOANS AND GUARANTEES IN 1972, U.S. EXPORTS ROSE RAPIDLY, FROM \$69 MILLION IN THAT YEAR TO A RECORD \$277 MILLION IN 1974. EVEN SO, THE U.S. ONLY OBTAINED A SMALL FRACTION OF THE HARD-CURRENCY MARKET FOR INVESTMENT GOODS IN THE 1971-75 PLAN, WHICH WAS THEN WELL UNDER WAY. EXIM'S THREE LARGEST CREDITS DURING THE PLAN PERIOD SUPPORTED EXPORT SALES OF ONLY \$10 MILLION IN COMPRESSORS, \$29 MILLION IN TIRE MANUFACTURING EQUIPMENT, AND \$44 MILLION IN BOEING 707 AIR-CRAFT. A NUMBER OF MUCH SMALLER LOANS AND GUARANTEES DID HELP BRING A VARIETY OF U.S. MANUFACTCERS INTO THIS MARKET, BUT OVERALL U.S. PARTICIPATION IN THE FIVE-YEAR-PLAN WAS LITTLE AND LATE. THE BIG BENEFICIARY OF ROMANIAN IMPORTS WAS THE FRG, WHICH IN 1974 SURPASSED THE SOVIET UNION AS ROMANIA'S PRINCIPAL SOURCE OF IMPORTS.

5. AGRICULTURAL AND INDUSTRIAL RAW MATERIALS HAVE DOMINATED U.S. EXPORTS TO ROMANIA, AND WILL PROBABLY CONTINUE TO DO SO, ESPECIALLY IN 1976. ALTHOUGH SOME CAPITAL EQUIPMENT FINANCED BY EARLIER EXIMBANK LOANS WAS SHIPPED IN 1975, IT WAS RELATIVELY UNIMPORTANT: OF A TOTAL OF \$160 MILLION US EXPORTS FOR THE FIRST NINE MONTHS OF 1975, \$113 MILLION

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CONSISTED OF AGRICULTURAL AND OTHER RAW MATERIALS. EXCEPT FOR ONE USED AIRCRAFT, IN 1975 THERE WERE NO MAJOR SALES OF U.S. CAPITAL GOODS. EXIMBANK FINANCING WAS NOT AVAILABLE DURING THE FIRST SEVEN MONTHS, AND THE ROMANIAN GOVERNMENT CONCLUDED VERY FEW CONTRACTS IN THE NEXT TWO MONTHS FOLLOWING THE JULY FLOODS. THERE IS LITTLE PROSPECT FOR IMPORTANT SHIPMENTS OF MACHINERY AND EQUIPMENT FROM THE US IN 1976, EVEN IF US COMPANIES SUDDENLY BECOME VERY SUCCESSFUL,

DUE TO THE LAG IN DELIVERIES OF MOST MACHINERY. YET ACCORDING TO THE GERMAN EMBASSY, FRG EXPORTS TO ROMANIA, MOSTLY MACHINERY AND EQUIPMENT, CONTINUED TO INCREASE MARGINALLY IN 1975 WHILE OURS DECLINED SHARPLY FOR THE FIRST NINE MONTHS.

6. IRONICALLY, THE POOR PERFORMANCE OF US MANUFACTURED GOODS EXPORTS TO ROMANIA COMES AT A TIME -- THE FIRST SINCE WORLD WAR II -- WHEN ALL THE INSTITUTIONAL AND PSYCHOLOGICAL PRE-REQUISITES FOR GROWING TRADE IN MANUFACTURED GOODS APPEAR TO BE IN PLACE. ROMANIA IS PARTICIPATING FULLY IN IMF, IBRD, GATT AND MTN. THE US HAS GRANTED MFN TREATMENT TO ROMANIAN EXPORTS AS WELL AS GSP, AND GOR IS ACTIVELY IF NOT YET EFFECTIVELY CULTIVATING THE U.S. MARKET. ROMANIANS HAVE RESPONDED WITH INTEREST TO A SERIES OF USDOC TRADE PROMOTION EVENTS, AND IT HAS BECOME FASHIONABLE FOR MAJOR U.S. MANUFACTURERS AND BANKERS TO INCLUDE BUCHAREST ON THEIR EASTERN EUROPEAN ITINERARIES. THROUGH HIGH-LEVEL ROMANIAN VISITS TO THE U.S. AND INCREASED CONTACTS WITH FOREIGN TRADE ORGANIZATIONS IN BUCHAREST, ROMANIAN OFFICIALS HAVE SHOWN INCREASED INTEREST IN U.S. PRODUCTS AND TECHNOLOGY, ALTHOUGH SOME ROMANIAN OFFICIALS STILL FEAR TRANSPORT COSTS AND DELAYS FROM THE U.S.

7. OUR ABILITY TO TAKE ADVANTAGE OF THESE ASSETS AND TO PROFIT FROM ROMANIAN INVESTMENTS IN THE COMING FIVE YEARS WILL DEPEND UPON EXIMBANK'S ABILITY TO PROVIDE COMPETITIVE FINANCING IN RESPONSE TO THE SUDDENLY INCREASED COMMERCIAL ACTIVITY HERE (SEE REFTEL A). ROMANIA'S HARD-CURRENCY DEBT HAS GROWN RAPIDLY

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C O N F I D E N T I A L SECTION 2 OF 2 BUCHAREST 0236

LIMDIS

FOR EXIMBANK CHAIRMAN DUBRUL FROM AMBASSADOR

IN 1974 AND 1975. SHORTAGES OF HARD CURRENCY REMAIN ROMANIA'S CHIEF OBSTACLE TO ECONOMIC GROWTH, ONE WHICH HAS BEEN EXACERBATED BY ROMANIA'S EFFORTS TO EXPAND TRADE WITH THE WEST. GOR OFFICIALS ARE QUITE RIGHTLY AWARE THAT ROMANIAN CONSUMERS HAVE BORNE THE BURDEN OF ROMANIA'S HIGH INVESTMENT RATES; IF GOR DOES NOT SQUEEZE EVERY DROP OF VALUE OUT OF OTHER COUNTRIES' EXPORT FINANCING IT CAN IMPAIR ROMANIA'S RATE OF CONTINUED DEVELOPMENT. IN THE INTERNATIONAL COMPETITION TO SELL CAPITAL GOODS IN ROMANIA, TECHNICAL DOMINANCE OF US BIDS IS NOT SUFFICIENT WHEN FOREIGN FINANCING IS BETTER -- AS WAS DEMONSTRATED BY JAPANESE SUCCESS IN WINNING THE SATELLITE EARTH STATION CONTRACT IN 1974 AND BRITISH SUCCESS IN MEDIUM-RANGE JET AIRCRAFT IN 1975.

8. WE WERE HIGHLY ENCOURAGED BY THAT PORTION OF CHAIRMAN CASEY'S SEPTEMBER 10TH ANNOUNCEMENT OF HIGHER INTEREST RATES INDICATING THAT (SUBJECT TO THE 7 1/2 PERCENT BLENDED RATE FLOOR), QUOTE WE WILL BE PREPARED TO GO AS LOW AS NECESSARY TO MEET COMPETITION UNQUOTE. RECENT EXIMBANK ACTION IN THE CASE OF ROLLWAY BEARING (REFTEL B) SHOWED THE KIND OF FLEXIBILITY WE NEED IN THIS MARKET, BOTH TO HELP WIN THIS PARTICULAR CONTRACT AND TO SIGNAL THE SERIOUSNESS OF USG INTEREST IN HELPING ITS FIRMS COMPETE HERE. DEPUTY PRIME

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MINISTER AND MINISTER OF FOREIGN TRADE ION PATAN EXPRESSED APPRECIATION FOR EXIMBANK'S EFFORTS IN THIS CASE DURING A MEETING WITH THE AMBASSADOR DECEMBER 22.

9. U.S. FIRMS MUST START WINNING MAJOR CONTRACTS FOR THE 1976-80 PLAN IN THE COMING MONTHS IF US-ROMANIAN COMMERCIAL RELATIONS ARE TO KEEP PACE WITH AND FULLY SUPPORT OVERALL USG POLICY TO SEEK CLOSER RELATIONS WITH ROMANIA THAN WITH THOSE COUNTRIES TIED MORE TIGHTLY TO MOSCOW. WE SEE NO REPEAT NO RESISTANCE TO THIS FROM GOR -- ON THE CONTRARY, GOR OFFICIALS POINT OUT THAT THEY WOULD BE HAPPY TO "BUY AMERICAN" IF OUR TERMS WERE COMPETITIVE. THE POTENTIAL FOR BILATERAL COOPERATION NOW APPEARS GREATER IN THE COMMERCIAL FIELD THAN ANY OTHER. EXIMBANK THUS HAS A KEY ROLE, THROUGH ITS DISCRETION OVER LENDING TERMS, IN THE DEVELOPMENT OF OUR OVERALL RELATIONS IN THIS PART OF EUROPE. WHILE WE RECOGNIZE EXIMBANK'S INDEPENDENT CHARTER, WE WOULD HOPE EXIMBANK COULD EXERCISE ITS DISCRETION ALONG THE LINES SPECIFIED IN PRESIDENTIAL POLICY GUIDELINES, WHICH CALL FOR CONTINUED PRECEDENCE IN DEVELOPING U.S. RELATIONS WITH ROMANIA AHEAD OF RELATIONS WITH

MOST OTHER EASTERN EUROPEAN COUNTRIES.

10. I HOPE YOU CAN CONTINUE THE VERY USEFUL EXIM TRADITION OF HAVING SENIOR OFFICIALS MAKE VISITS TO COUNTRIES WHERE EXIM OPERATES. BOTH BILL CASEY AND MITCH KOBILINSKI AMONG THE DIRECTORS HAVE BEEN HERE IN THE LAST TWO YEARS. RAY ALBRIGHT AND DAVID WIGG HAVE ALSO VISITED ROMANIA AND KNOW IT WELL. I AM VERY HOPEFUL THAT YOU WILL FIND AN EARLY OCCASION TO COME TO ROMANIA TO SEE FOR YOURSELF HOW INTERESTED TOP ROMANIAN OFFICIALS ARE IN EXIM'S ROLE IN US-ROMANIAN RELATIONS.

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